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WEEKLY SUMMARY



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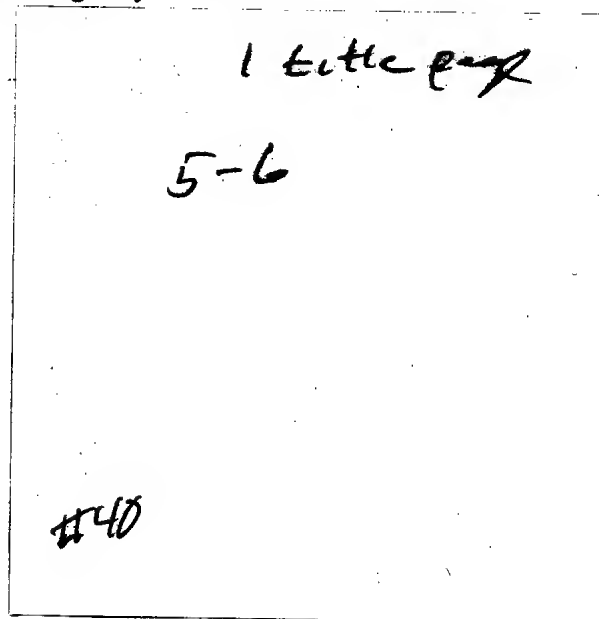
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SECRET**H I G H L I G H T S**

It has become increasingly clear during the past week that the strenuous efforts of the USSR to forestall the Atlantic Pact are defeating themselves. Not only have these Soviet efforts failed to deter Norway and Denmark, but they have tended to strengthen support for the Atlantic Pact in France and Italy (see page 5). The recent speeches by Communist Leaders Thorez and Togliatti, declaring that Western Europeans would welcome invading Soviet forces, have been followed by a call for increased Communist militancy, suggesting that greater emphasis will be placed upon Communist sabotage and subversion in the future.

The dogged refusal of the Dutch to restore the leaders of the Indonesian Republic to governmental authority has continued during the past week to keep the Indonesian dispute in a deadlock (see page 9). Republican leaders point out that this refusal conflicts with the UN Security Council's 28 January resolution and prevents them from legally participating in the proposed 12 March round table conference at The Hague. As a consequence of this new impasse, the dispute will probably be brought before the Security Council once again. Meanwhile, Belgium and Luxembourg are displaying a growing anxiety about the steady drain upon Dutch finances entailed by the Indonesian problem and about the wisdom of proceeding with measures which would make the Benelux economic union fully effective (see page 2).

SECRET**WESTERN EUROPE**

Benelux Union Development of the Benelux economic union may be retarded seriously by the prolonged Dutch impasse in Indonesia. Belgium has always been reluctant to share the burden of the less favorable economic and financial conditions in the Netherlands. The lack of progress toward a solution in Indonesia and the consequent heavy drain on Dutch finances have augmented Belgian anxiety about embarking on a full economic union with the Netherlands by 1 January 1950, the present target date. Further measures for establishing a full economic union will be discussed at a 10 March meeting of the Benelux ministers. If no solution to the Indonesian dispute is in sight by that time, the Belgian and Luxembourg ministers will hesitate to make any definite commitments, and it is thus increasingly doubtful that Benelux will have progressed much beyond a limited customs union by 1950. Political considerations, however, may force the establishment in name only of an economic union, with implementation delayed until economic conditions in the Netherlands improve.

GERMANY

Status of Berlin As one of the peripheral results of the Berlin blockade, the question of the relationship of western Berlin to western Germany is becoming more pressing in its effects upon both German morale and over-all occupation policy. The economic and financial burden on western Germans and Berliners of maintaining the blockade is creating political pressure for making western Berlin the 12th Laender in the new west German state. Presently, more than half the bizonal administrative budget

SECRET**GERMANY**

for 1949 is earmarked for the relief of Berlin. Thus, resentment is increasing on the part of the west Germans over the heavy financial obligations which they feel have been imposed by the occupying powers; this resentment is being expressed by demands to include west Berlin in west Germany, a solution bitterly opposed by the French. The citizens of Berlin, although determined to continue resisting the Soviet blockade to the limit of their economic and financial resources, are seeking a more formal assurance of security than that offered by the airlift. They, too, would like to have western Berlin incorporated into western Germany. West Berliners are acutely aware of their crucial role in the east-west struggle and feel they should enjoy maximum security in return for the risk they have assumed in cooperating fully with the western powers in their decision to run the Berlin blockade indefinitely. Meanwhile, the west Berliners are magnifying their financial difficulties in the hope of hastening the introduction of the western mark as the sole currency in western Berlin; such a step, they feel, would greatly increase the possibility of later incorporation of Berlin into the new west German government.

TRIESTE

Italian Nationalism Growing Italian nationalism will make rapprochement between the Italians and Slovenes in Trieste more difficult and threatens to complicate administration of the area. Italian officials in Trieste are opposing the inclusion of the Slovene minority (some 20%) in the local administration. Italians regard the forthcoming Trieste elections as an unofficial plebiscite on the future disposition of the city. To prevent competition among pro-Italian parties, Italian officials in Rome

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TRIESTE

favor a single electoral ticket composed of as many of these parties as possible, including even neo-Fascist groups. Such a policy, if agreed to by the Italian parties in Trieste, would alienate both non-Communist Slovenes in the area and Italians with moderate leftist leanings. Such an emphasis on nationalist issues would also heighten Italo-Slovene racial antagonism, which is already being exploited by pro-Yugoslav Communists. Moreover, accentuation of the nationalist issue will make administration of the area more difficult whether by US-UK military forces, by a UN governor, or by the Italians.

FRANCE

Inflation Ends The inflationary trend in France appears to be drawing to a close. If prices continue to decline and the Third Force Government can follow through with economic measures already initiated, France has an excellent chance of attaining by spring a degree of economic and financial stability that will permit ECA aid to be used more for long-range constructive projects than for immediate prevention of economic collapse.

SECRET**E A S T E R N E U R O P E****SOVIET UNION**

Propaganda Offensive **Strenuous Soviet efforts to forestall the proposed Atlantic Pact are, by their very intensity, generally producing results opposite to those desired by the Kremlin. The recent speeches by Communist Leaders Thorez and Togliatti can be expected, if anything, to intensify existing support in France and Italy for the Pact. By publicly asserting that Communists in these countries would welcome invading Soviet forces, these leaders hoped to increase the fear of war and of Soviet occupation of Western Europe and also to demonstrate the unreliability of both France and Italy as prospective Pact members. This type of attack, however, tends to reinforce other factors that have been weakening Communist influence as a political force in France and Italy. Moreover, Communist leaders, by calling for a return to Communist militancy comparable to that of the late 1920's, are preparing the way for greater emphasis on sabotage and subversion.**

Meanwhile, increased Soviet propaganda pressure on Scandinavia is also having little effect. The USSR may soon revive the Spitsbergen issue by asking Norway for assurances that no military bases will be built in the Spitsbergen archipelago. The Kremlin will probably claim that any defense preparations in the area would be a violation of the Spitsbergen Treaty of 1920. The Kremlin, anticipating Norwegian rejection of the Soviet-proposed non-aggression pact, is already accusing Norway of "aggression" and may use this as an excuse for demands on Finland, possibly by proposing joint Soviet-Finnish defense discussions. These prospective maneuvers

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SOVIET UNION

probably would not change Norway's desire to join the Pact, and Finland's present Social Democratic Government would probably reject any such Soviet proposals. The Finnish Government may be strengthened by the inclusion of representatives of other non-Communist parties and thus be prepared to offer stronger opposition to future Soviet demands.

Merchant Shipping The USSR is attempting more and more frequently to force the masters of foreign vessels to open safes and sealed envelopes during calls at Soviet-controlled ports. Such incidents have involved merchant ships of the US, the UK, and other western powers. The USSR probably hopes to obtain intelligence which would disclose the disposition of western merchant shipping if hostilities broke out.

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1 March 1949

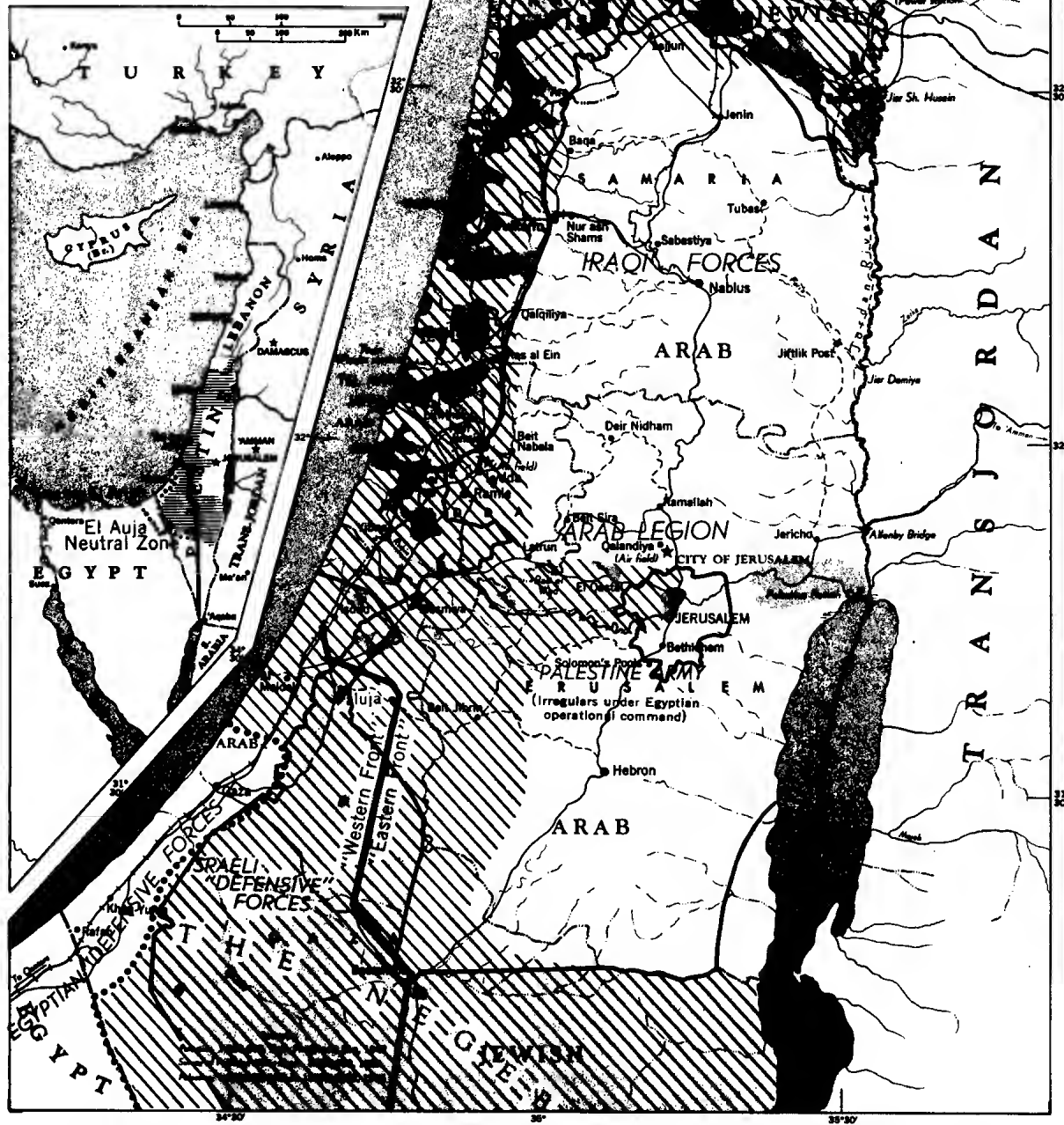
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PALESTINE



Approximate area under Israeli civil or military control, 1 March 1949

- Partition Boundary (as accepted by the United Nations General Assembly, Nov. 1947)
- International Boundary
- District Boundary
- Standard Gauge Railroad (4'8 1/2")
- Narrow Gauge Railroad (3'5 1/2")
- First Class Road
- Second Class Road
- Oil Pipe Line
- Intermittent Stream
- Jewish Communal Area



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SECRET**NEAR EAST - AFRICA****PALESTINE**

Armistice Results The military changes wrought by the Israeli-Egyptian armistice have not, in practice, reduced the effective military control over the Negeb which Israel gained in its latest military offensive. The armistice provided for: (1) the release of the Egyptian brigade at Faluja (already returned to Egypt); (2) the demilitarization of a neutral zone around El Auja; and (3) the withdrawal of all but "defensive forces" by Israel from the western Negeb and by Egypt from both the Gaza coastal strip and from Egyptian territory east of the El Auil-El Auja line. Although this partial demilitarization of the Israeli-Egyptian border areas will give each state a greater feeling of security against sudden aggression by the other, the retention of Israeli "defensive forces" in the Jewish settlements will assure Israel of continued control of the western Negeb. Moreover, agreement on these military changes, despite Egyptian claims to the contrary, will probably set the pattern for the territorial division of Palestine in the final political settlement.

The armistice made no changes in the disposition of Arab and Jewish forces in the eastern Negeb. Beersheba was omitted from the armistice provisions on the grounds that its control would be determined by a separate arrangement between Israel and Transjordan. Any changes in northern and central Palestine will depend upon the conclusion of Israel's current negotiations with Transjordan at Rhodes and with Lebanon at the border town of Ras Naqura, as well as on any arrangements which may be made with Syria (and possibly Iraq). The major issue of the Ras Naqura negotiations is the withdrawal of Israeli forces from southern Lebanon. At Rhodes,

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PALESTINE

the Transjordan delegates are believed ready to sign a straightforward agreement formalizing the present military situation in central Palestine, although there is some doubt how such an agreement can be reached without the concurrence of Iraq which controls north central Palestine and which, like Syria, has shown no enthusiasm for any kind of negotiation with Israel.

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F A R E A S T

CHINA

Disunity Acting President Li Tsung-jen is making some progress in undermining the influence of Generalissimo Chiang Kai-shek in the operation of the National Government. Chinese Communist Leaders Mao Tse-tung and Chou En-lai have granted an interview to Li's peace mission, which reports that the Communist leaders have agreed in principle to the reopening of certain lines of communication between Communist and Nationalist China. A Communist broadcast has indicated that formal peace negotiations probably will begin shortly. Li's indefatigable efforts to make peace have won him growing popular support in Nationalist China, and he has shown political astuteness in persuading recalcitrant Cabinet President Sun Fo to come to Nanking from Canton for the opening of the Legislative Yuan. Despite these gains, however, Li may be forced into some sort of compromise with Chiang as long as the latter controls the bulk of the National Government's monetary reserves and banking facilities.

INDONESIA

Deadlock Continues The Indonesian dispute will probably once again come before the Security Council as a result of the 1 March report by the UN Commission for Indonesia which stated that no progress had been made toward Republican-Netherlands negotiations for establishment of a federal interim government. The major obstacle in reaching a negotiated settlement continues to be the Dutch refusal to restore Republican authority in

SECRET**INDONESIA**

Jogjakarta, with: (1) the Netherlands Government firmly maintaining that such restoration would mark the return to chaos and the end of law and order recently gained through Dutch "police action"; and (2) Republican leaders contending that unless they return to Jogjakarta they cannot speak with sufficient authority to stop guerrilla fighting. Since the Dutch position is in conflict with the 28 January SC resolution instructing the Dutch to deal with a restored Republican government, the Netherlands Government will appear at a distinct disadvantage before the SC. Pressure from the Asiatic states will compel the SC to reaffirm its January resolution, an action which has already received strong US and UK support. In fact, all parties except the Dutch insist that the Republican government be restored as a negotiating authority. Under these circumstances, the SC will probably instruct the UN Commission for Indonesia to seek a solution resolving this impasse and will agree to an extension of its timetable for establishing an Indonesian government. Indications that the Dutch would be receptive to the restoration of Republican governmental authority in northern Sumatra suggest the possibility of a compromise along these lines.

SIAM

Abortive Coup Although Premier Phibul's Government thwarted the 26-27 February armed revolt inspired by ex-Premier Pridi, tension in Bangkok remains high and hostilities may be renewed. Phibul has used the attempted coup as an excuse for removing General Kach (a corrupt army strongman intensely disliked by the pro-Pridi navy) from control of the Bangkok garrison, but this step will only partially satisfy Kach's bitter opponents. Thus, while Phibul would like to rid himself entirely of his politically

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SIAM

embarrassing ally, he cannot afford to lose Kach's army support while the navy is still exerting strong pressure against his regime. The possibility of renewed hostilities between army and navy factions makes a political solution to the present situation particularly desirable. Therefore, Phibul may be prepared to make further concessions to the pro-Pridi opposition.

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SECRET**W E S T E R N H E M I S P H E R E**

Caribbean Tension Despite the success of the Council of the Organization of American States (COAS) in achieving a temporary settlement of the Costa Rican-Nicaraguan dispute, the Pact of Friendship signed by the two countries will do little to alleviate tension in Central America. By urging that any similar difficulties be resolved in the future by consultation between the two Governments, COAS has merely postponed solution of the basic disagreements between Somoza's Nicaraguan dictatorship and the "democratic" regime of President Figueres in Costa Rica.

Although COAS fully exposed Somoza's complicity in the December 1948 revolt against Costa Rica, Nicaragua has nevertheless profited from the settlement. Somoza can point to the agreement as proof of his willingness to negotiate; furthermore, as a result of the negotiations, he has achieved his principal objective in supporting the Costa Rican resolutions, namely to forestall or at least delay a revolt against himself by the Costa Rican-based Caribbean Legion.

Costa Rica, on the other hand, remains in the same insecure position with regard to Nicaragua as it did before COAS intervened. The settlement provides no adequate guarantees against future action by Nicaragua. Moreover, Costa Rica has in effect been ordered to expel the anti-Somoza Caribbean Legion. President Figueres is therefore faced with these alternatives: (1) if he disbands the Legion, he loses his only protection against Somoza and the Calderon Guardia rebels; and (2) if he allows the Legion to remain, he will be subject to continued Nicaraguan pressure for its removal.

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Peru-Colombia Mounting tension between Peru and Colombia may lead to some violence, but it is unlikely that full-scale warfare will result. For weeks, the Colombian Government has unsuccessfully sought safe conduct for Haya de la Torre, the fugitive APRA leader now in sanctuary at the Colombian Embassy in Lima. Colombia is accusing the Peruvian Government of deliberately seeking an international incident in order to distract attention from Peru's desperate domestic economic troubles. The Foreign Minister of Colombia is reportedly giving serious consideration to severing diplomatic relations with Peru and referring the matter to the Organization of American States. In the military field, Colombia has concluded an informal agreement with Ecuador against possible aggression and is quietly reinforcing garrisons along the Peruvian border. There are no indications that Peru has taken any countermeasures.

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19. Deputy Chief of Staff (Operations) U.S. Air Force
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21. Director of Plans and Operations, U.S. Air Force
- 22,23,24. Special Assistant to Secretary of State for Research
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- 25,26,27,28,29, 30,31,32,33,34. Director of Intelligence, General Staff, U.S. Army
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61. Deputy Director, Joint Intelligence Group, Joint Staff
- 62,63. Secretary, Joint Intelligence Group, Joint Staff
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- 66,67. Secretary, State-Army-Navy-Air Coordinating Committee
68. Administrator, Economic Cooperation Administration

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